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(E/1986)

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/FINANCING

FINANCING ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES (E/1970)  
REPORT OF THE GROUP OF EXPERTS APPOINTED BY THE SECRETARY-GENERAL UNDER ECONOMIC  
AND SOCIAL COUNCIL RESOLUTION 290 (XI) ON MEASURES TO REDUCE UNEMPLOYMENT AND  
UNDER-EMPLOYMENT IN UNDER-DEVELOPED COUNTRIES IN THE LIGHT OF REQUIREMENTS OF  
ECONOMIC DEVELOPMENT (E/1986)

Mr. WILSON (United Kingdom) paid a tribute to the experts' report before the Commission. His delegation had long felt that more use should be made of that method of ascertaining facts and making recommendations. Since the report had been received very recently, and his Government had not had time to give it due consideration, his comments on it would be made largely in his individual capacity.

Neither he nor his Government agreed with all the authors' diagnoses and recommendations. He singled out as deserving special attention the stress laid by the experts on the importance of aid to small farmers and the importance of increasing crop yields by modern techniques. The countries which had been developed in the nineteenth century had large open areas with an acute scarcity of labour, whereas the present-day under-developed countries had abundant labour supplies. The latter should therefore concentrate on labour-intensive rather than capital-intensive forms of development. That was particularly true at present, when many forms of heavy capital equipment were in short supply.

There was one serious defect in the experts' approach which was particularly relevant to the question of financing economic development, especially external financing. The previous year another group of experts had produced a report on national and international measures for full employment, which had concentrated on the problem of cyclical unemployment in developed countries. It was because that had been done that it had been decided to appoint another group of experts to study the related problem of unemployment in under-developed countries. The first report had emphasized the very important point that the maintenance of a high and stable level of economic activity in the developed countries was one of the greatest contributions that could be made to the removal of unemployment and under-employment in the under-developed countries. The authors of the new report appeared to ignore that important fact. They stated

/that fluctuations

that fluctuations in activity in developed countries affected the level of income rather than of employment in under-developed countries, and that the principal remedy for under-employment in the latter was measures directed to general economic development. While agreeing with that main thesis, he wished to stress the point he had already mentioned with regard to the effect on under-developed countries of the elimination of unemployment in developed countries and the maintenance of a high and stable level of activity. Important measures to that end had been agreed upon at the Economic and Social Council's eleventh session and endorsed by the General Assembly.

Present economic thinking tended to be dominated by the experience of the 1930's, which had been a period of insufficient demand in the developed countries. That deficiency of demand had had grave consequences for the under-developed countries as their foreign markets shrank. The 1950's, however, had every appearance of being a period of very active demand. That would lead to a period in which the under-developed countries would be in easy financial circumstances. The terms of trade were in their favour, and they were tending to accumulate a balance of payments surplus which would assist them if appropriate measures were taken in financing development projects both directly, by enabling them to purchase capital goods, and indirectly, by making them more credit-worthy and thus a more attractive field for investment, both private and international. The existing high level of demand, therefore, made the problem of financing development easier, although temporarily at least it rendered the problem of supply more difficult.

The existing high level of demand might be expected to continue for many years because of the rapid increase in output which, with full employment, was to be expected in the developed countries. Output in the United States could be expected to increase by about 7 per cent a year and in the United Kingdom the increase would be about 8 per cent a year, were that country not hampered by shortages of raw materials. Although the situation might have worsened with regard to the supply of capital goods, existing difficulties were only temporary and the under-developed countries could do much to overcome them by increasing their output of raw materials and thus enabling the developed countries to expand their output of capital goods.

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Nevertheless, in spite of the easing of the financial problems of under-developed countries, further finance would still be required, and it was important to provide the best and most comprehensive mechanism possible to make finance available to the under-developed countries. Facilities for financing development must be of different kinds and must be made available through different channels according to circumstances. His Government recognized the need for assistance in many different forms, such as grants-in-aid for capital expenditure of the non-self-liquidating kind, government loan capital facilitating the flow of private capital, and finance of the type made available by the International Bank. For some years his Government had been making grants-in-aid and government loan capital available to its own dependent territories through separate institutions. It had also been making provision for the liquidation of accumulated sterling balances at the maximum rate considered possible. It was determined to continue that policy and believed that its participation in the Colombo Plan was a sufficient earnest of its intentions and a good indication of the methods it considered suitable.

He doubted whether his Government could in the immediate future substantially increase the volume of finance or real resources made available. It was, however, necessary to look ahead and devise appropriate machinery for the future, even though such machinery could not be put into operation immediately. He wished, however, to caution the Commission against multiplying unnecessarily the number of international organizations operating in that field, keeping in mind that there was in the world a shortage of administrative manpower. It was also necessary to consider the danger of excessive haste, which had been exemplified by United Kingdom experience in certain development projects. In the case of the Gezira cotton scheme mentioned in the experts' report, which was one of the most successful development projects ever launched in an under-developed country, there had been much careful preliminary survey work which had doubtless contributed to the scheme's success.

With regard to procedure in the detailed discussion of the report, he pointed out that the Commission was essentially a technical body whose function was not to make recommendations to Governments but to prepare the agenda for the Economic Committee and the Economic and Social Council. The duty of the Commission was to report to the Council that it had considered the recommendations of the experts as well as other suggestions, that it welcomed the report and other suggestions, and that it did not pass final judgments, but had done its best to examine their implications in order to help the Council to come to a more considered conclusion.

Mr. BUNGE (Argentina) said his country would favour and support any programme which would effectively develop the wealth of the under-developed countries and thus establish the basis for raising the economic and social well-being of their inhabitants. The well-being of the world was indivisible and the poverty of some would affect and imperil the wealth of others. His country therefore welcomed and had co-operated in various plans for assistance to countries in need of it. It had, for example, donated foodstuffs during the war and granted credits for the purchase of its exports to countries suffering from the effects of the war. It had also collaborated with neighbouring countries in carrying out various programmes of development and more recently had given its support to the programmes for technical assistance of the United Nations and the Organization of American States.

The documents classed Argentina along with its Latin American neighbours as an under-developed country, but Argentina did not completely correspond to the definition of an under-developed country. It had been richly endowed by nature, and although its industrial development had not been as great as that of some other countries, much progress had been made in recent years, with encouraging results. Although young, Argentina was carrying out the task of establishing a solid and constantly expanding economy, which would ensure the well-being of its present and future population. Argentina would certainly welcome contributions in the form of foreign capital or technical assistance and if they corresponded to the country's legal and administrative conditions and would help in the achievement of the economic and social ends which constituted the framework within which its national capital performed its functions.

Taking up the problem of the financing of economic development, he pointed out the necessity of finding practical solutions. Much theoretical and academic material dealing with the subject had already been produced, but there was still no solution. It would not be possible to solve the question merely by general recommendations for action by the Governments of under-developed countries to promote adequate domestic savings. Procedures must vary in accordance with circumstances, and each people, through its legitimate Government and with the international aid which could be given without prejudice to its national interests, must evolve its own development programmes.

/The experience

The experience of his own country might be of use in that connexion. Among other things, he might mention the reorganization of its banking system in 1946, including far-reaching measures affecting the use of the deposits for purposes of economic development (both industrial and agricultural), the establishment of new institutions, etc. The organization and perfection of that structure had rendered possible the effective utilization of increased national savings and the achievement of the Government's objective of economic independence without detriment to the standard of living.

He stressed the importance of adequate international action to channel foreign investment into productive enterprises in the under-developed countries. Foreign capital must realize that it should serve the interests of the people in whose country it was invested, just as it would have served domestic interests if invested at home. Foreign capital was sought as an instrument of production at the service of the community. Having established that fact, which he considered quite as important as the setting up of an effective administrative and economic policy in the recipient country, he wished to point out the insufficiency, for various reasons, of the existing flow of direct investment in under-developed countries. Current world savings were not distributed in accordance with the world's most urgent development needs and means must be found to channel them to the best advantage.

The experts' report referred to the desirability of action by the under-developed countries to achieve better utilization of their resources and the progressive education of the population. He agreed that it was important that each country should recognize its own interests and implement and safeguard them through a healthy economic policy and an efficient and honest administration, but it was equally important that the developed countries, which were in a position to provide the necessary capital and technical assistance, should encourage the investment of that capital abroad and ensure that it helped to carry out desirable social functions. In that connexion it appeared exceedingly important to educate, in those terms, foreign capital and foreign enterprise. The failure to grasp that might have serious consequences for the whole world, including the capital exporting countries.

/He reminded

He reminded the Commission of the concept expressed in the report by the previous group of experts that the ideal of full employment could only be achieved in the context of an expanded world economy, in which the economic development of the under-developed countries formed the most important single element. As he had already said, the welfare of the world was indivisible, and there was no substitute for the maintenance of a progressive economic system which would lead to the gradual elimination of excessive differences in the wealth of nations.

On that account, it was very necessary to promote investment, both public and private, by the developed countries. Much had already been done through international organizations but, in view of the magnitude of the problem, it was not enough. More efficient education and public services in the under-developed countries might greatly assist, but the importance of other aspects should not be minimized. Two points of cardinal importance were the terms of trade and the distribution of scarce goods. If equitable terms of trade were not established, the results would be prejudicial to all and in particular to the under-developed countries, because of their dependence on trade in a limited number of raw materials. The study of that question had been referred to another group of experts, but it was worth stressing that now, at the time when an attempt at the comprehensive regulation of world trade in certain raw materials was being made, the establishment of a just and equitable relationship in terms of trade must be ensured; the ill effects of a unilateral policy in the matter would be of long duration, whereas a satisfactory price relationship would permit greater domestic savings and thus make international action less necessary.

A similar statement might be made with regard to scarce capital goods which, due to emergency situations, might have to be rationed. The development needs of less developed countries must receive a high priority. Projected development programmes would be of no use if the machinery required to implement them was not available and the necessary steps must therefore be taken to ensure its supply even in periods of emergency.



He paid a tribute to the work of the group of experts, and indicated that his Government's official views would be made known later, when it had had time to study the report.

Mr. OZGUREL (Turkey) said that the group of experts seemed somewhat optimistic in their estimation of the effect the hoarding of gold would have upon internal financing and in their views on the increase in agricultural production which could be expected from training in modern methods of cultivation. Apart from such minor points, however, the report as a whole was sound and his delegation was prepared to support the conclusions reached, while bearing in mind the fact that it might not be possible to implement all the recommendations immediately. For those who enjoyed subtlety, there was of course a distinction between the problem of economic development and that of full employment, but the two were very closely related and it was useless to try to deal with the latter without first attacking the former.

There was one point which the experts appeared to have neglected, and that was the differing needs of the under-developed countries according to the stage of development they had reached. The countries which were just embarking upon their development might require a fairly long period of technical preparation before any large-scale programme could be put into effect. However, there were other countries which had already reached a certain stage of development where immediate assistance could bring about the desired results within a relatively short time. Given that assistance, such countries would soon become independent of foreign financing and might in their turn be able to extend a helping hand to the other under-developed countries.

Mr. SAKSENA (India) said that, in the entire history of human relationships, there had seldom been so important, urgent and momentous a problem as that of the economic development of the under-developed countries. It was important because it affected vast areas of the world and approximately two-thirds of the world's population. It was urgent because of the unrest and tension caused by the great disparity in living standards between the under-developed countries and the developed countries. The average annual income in the former was

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41 dollars, while in the United States it was 554 dollars and in other developed countries 461 dollars. The average expectation of life in the under-developed countries was 27 years as compared with 63 years in the developed countries. Many more figures illustrating that disparity could be mentioned. On the solution of that momentous problem the future of the human race depended. He rejected, however, the solution through the regimentation of all productive resources, as contrary to the concepts embodied in the Charter.

It had been stated that, in some of the under-developed countries, religious prejudices were impeding economic development. In that connexion, he wished to sketch briefly the past history of India to show how colonial rule had actually impeded the economic development of the country and caused the feeling of hopelessness and despair among the inhabitants. Over a period of 150 years India had been subjected to foreign domination. Its people had lost contact with their own traditions and cultural values. Before that period India had been a relatively advanced and industrialized country, but with the arrival of the foreigners stress was laid on external trade and the whole focus of the country's economy had been shifted from the centre to the coastal trading posts causing deep economic, with consequential social, changes. Its own industry had withered away and the country had been converted into a market for British goods. It had not been allowed to develop along normal lines and the whole economic picture had been changed with a disproportionate number of people moving to the land, thereby increasing the pressure of population. That, and not philosophical or religious prejudices, was the cause of the hopelessness and despair among the people, and it was now essential to help them and give them hope for the future. The representative of Australia had spoken of patience and of slow progress. The history of his country, however, was quite different from that of India. The original pioneering work had been carried out in the days when Australia had been a penal settlement and after a century of that initial impetus it had been relatively easy for the free people of Australia to go forward and complete the work. Progress in Australia had in fact been remarkably rapid and most of the economic development of the country had been carried out during the past 50 or 60 years. He emphasized the great urgency of finding a solution for the problems of the under-developed countries. Something must be done immediately, for conditions were growing progressively worse and events would not wait upon the pleasure of those who were in a position to help.

/It had

It had been said on several occasions, and also by the group of experts, that the under-developed countries should show that they had done their utmost to help themselves before they were given any external assistance. Like the representative of the Philippines he was prepared to take up that challenge. The report of the group of experts stated that the under-developed countries should have an efficient and honest administration. India was very fortunate in that its officials met that requirement fully. The report also recommended that planning machinery should be established. For the past eighteen months a Planning Commission had been working to promote industrial development and its report should be ready shortly. An Industrial Finance Corporation had also been established for the development of industry and it had worked efficiently for the past two years. He quoted from official documents and statements as to the guiding principles and method of work, in connexion with the above-mentioned organs. The Indian Government had done its best to initiate industrial projects, thus meeting another of the requirements laid down by the group of experts. Those projects included the establishment of several factories (for the manufacture of fertilizers, iron and steel, machine tools), national research laboratories in various fields and a scheme for the manufacture of penicillin and anti-malarial drugs which was to be put into operation with the assistance of the World Health Organization. The shipbuilding industry was also being encouraged and a new port was being built on the West coast. The Government was making plans for the development of the river valleys to produce hydro-electric power and three such schemes were already in operation; for one of them a loan had been secured from the International Bank. Finally, the Government had entered into negotiations with foreign countries in an attempt to obtain capital to finance twelve important development projects, and it was hoped that the necessary funds would soon become available.

His country had done its best to attract foreign capital by liberalizing its income tax regulations and granting various exemptions, including relief from customs duty for the importation of supplies and capital goods needed for industrial purposes.

The report of the group of experts stated further that the under-developed countries should carry out land reforms to improve their agricultural production. In that respect, India was doing its best to abolish the system of

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land ownership by landlords who simply collected the rent but did nothing to improve the property. The Government was, however, encountering some difficulties because it did not wish simply to disinherit the landowners without compensation, and it could not compensate them all at once for fear of increasing the already existing inflationary pressures. Steps were being taken to give the tenant farmers a real interest in the land and several credit institutions had been established to grant loans at a low rate of interest. The Government was also trying to consolidate agricultural holdings but that could not be done without first providing alternative employment for the persons affected.

It could be seen from that survey of the work being carried out in India that (1) the country had done as much as was possible with its own domestic resources and (2) that it had always been handicapped by the lack of capital.

As a means of raising and allocating the necessary capital for the financing of non-self-liquidating projects in under-developed countries, the experts had recommended in Part III of their report that the United Nations should establish an international development authority with power to make grants to the Governments of under-developed countries for certain specific purposes listed in paragraph 276 of the report. That was by no means a new idea. It had first been put forward in 1949 by the Chairman of the Sub-Commission on Economic Development who, having noted the inadequacy of existing international financial institutions, had proposed the establishment of an international agency to finance non-self-liquidating projects in under-developed countries and to co-ordinate all the activities of the United Nations and of the specialized agencies in the field. The report on national and international measures for full employment had also stressed the necessity for government financing through an international agency. The Sub-Commission on Economic Development had again discussed the question at its fourth session, emphasizing in its report that there could be no sound economic development without a preliminary or simultaneous development of various non-self-liquidating projects in such fields as health, housing, education and public utilities. Since those projects could not be financed by the under-developed countries out of their own domestic resources, and since at the same time they were obviously an

essential prerequisite for the success of ordinary self-liquidating investments, it was clearly in the interests of the investing countries to finance such non-self-liquidating projects in the under-developed countries. That form of financing could only be carried out effectively through an international organization. The same idea had also been advanced by Mr. Gray in the report he had submitted to the President of the United States in November 1950, and by Mr. Nelson Rockefeller in his report entitled "Partners in Progress" of March 1951 which actually suggested the creation of an international development authority. The President of the International Bank had also recently stated, at the twelfth session of the Economic and Social Council that in some cases it would be better to give outright grants-in-aid rather than loans which, in cases of default, would only engender resentment on both sides.

It could be seen therefore that there had been remarkable unanimity in the broad line of approach to the problem and in the measures advocated for its solution. The points on which there was general agreement were the following:

1. The under-developed countries were not in a position to finance their economic development adequately from their own domestic resources. The shortage of capital was the main obstacle -- its roots lay in the low national income of the under-developed countries, which prevented the formation of savings and hence of investment capital. That was a vicious circle because, while there could be no economic development without savings, there could also be no savings without economic development. Only foreign capital could break the circle.
2. The available domestic financial resources in under-developed countries should be supplemented by international loans on a more liberal scale and more generous terms than in the past. In that connexion, he welcomed the statement recently made by the President of the International Bank, who had promised more liberal terms and also assistance to under-developed countries in the preparation of their development plans.
3. Non-self-liquidating projects as opposed to economic projects should be financed internationally through grants-in-aid or by means of long-term loans at a low rate of interest.

4. Foreign equity investments should be encouraged by the governments of under-developed countries by measures such as guarantees against non-commercial risks and relief from double taxation.

He believed that the Commission should express its approval of those four basic principles and thus lay the foundation for future concrete action in that field.

Only minor objections had been raised on some of the points. Some representatives for instance had questioned the recommendation that the International Bank should set for itself the objective of lending \$1,000,000,000 annually to under-developed countries. The important fact was that the Bank should increase the volume of its lending and liberalize its terms. The actual figure was of secondary importance.

Both the Belgian and United Kingdom representatives had questioned the advisability of setting up yet another international agency. The relevant criterion there was not the number of existing international agencies, but whether any of them could undertake the task and carry out the recommendations outlined in the report. No one would advise the great foundations existing in the United States to transfer their activities to banking institutions, and since the international development authority's functions would be very similar in nature to those of a foundation it was idle to argue that they could be adequately performed by the International Bank.

The Belgian representative had also argued that rearmament programmes now being carried out in many developed countries were of great assistance to under-developed countries. If he meant that rearmament programmes had exercised a corrective influence on the balance of payments positions of the under-developed countries, his statement was correct. It was obvious however that no country could cheerfully welcome relief based on armament programmes. Furthermore, such programmes were prejudicial to the interests of the under-developed countries because they had led to a decrease in the flow of much needed equipment, as noted in paragraph 281 of the report, and had also stopped the flow of foreign investments which alone could provide the necessary impetus for economic development.

Although the report deserved nothing but praise, it was necessary to correct some of its omissions and amplify some of its recommendations.

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First of all, as other representatives had pointed out the report made no reference to several existing projects for the economic development of under-developed countries. The Colombo Plan, for instance, which had been sponsored by the Australian Government, represented a very great achievement because, though only regional in scope, it had a very sound basis and took into consideration the real needs of the under-developed countries concerned. He regretted that the experts had not made any suggestions for co-ordination between such plans and activities at international level, such as of the international development authority.

Secondly, the report made no reference to enterprises which might be jointly financed by governments, domestic capital and foreign capital. Co-operation between those three elements would be extremely valuable. The participation of the Government in any enterprise would instil confidence in the public; the participation of domestic capital would allay fears of foreign economic domination; and the participation of the government and of domestic capital would guarantee fair treatment for foreign capital.

Thirdly, the report did not pay sufficient attention to the problem of inflation, which was bound to arise in many cases because of the lapse of time between the beginning of any project requiring a large outlay of capital and the moment it began to yield. Under-developed countries were in great need of assistance in that particular field and more abundant supply of food was very important.

Fourthly, the report had not dealt at sufficient length with the various possible arrangements for the repayment of loans. Some leeway would have to be granted to under-developed countries in that respect.

Finally, the report contained no adequate proposals for co-ordination between the International Development Authority, the International Bank and the competent specialized agencies, which were already doing most excellent work in providing technical assistance.

All those points, however, were of minor importance and could be easily remedied. The main difficulty was that none of the recommendations in the report could be implemented without sincere and sympathetic co-operation on the part of the developed countries. He wished to make a most earnest appeal to such countries not to withhold their co-operation, for without it no scheme of economic development would ever succeed.

/Unfortunately,

Unfortunately, he realized that the developed countries were now devoting a very large part of their resources to rearmament programmes. In that connexion, he wished to draw the Commission's attention to a draft resolution (A/C.1/598) submitted by the Indian delegation on 26 October 1950. The resolution was entitled "Declaration on the Removal of the Threat of a New War and the Strengthening of Peace and Security Among the Nations". Having noted that the prevalence of hunger, disease and want in large areas of the world were a danger to peace and stability, and that large and growing armament programmes also represented a threat to peace and diverted human and economic resources which could otherwise be used for raising the standard of life in under-developed countries, the resolution recommended the creation of a United Nations Peace Fund for the development of under-developed areas. It also recommended that each Member of the United Nations should submit a scheme setting forth the principles and the scale on which it would be prepared (a) progressively to reduce its armaments, and (b) to contribute to the Peace Fund. In his opinion, it would be very helpful to establish such a fund and, from the psychological point of view, it was important to continue to speak of peace even in the midst of preparations for war.

The meeting rose at 12:45 p.m.